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UNCLAS HARARE 001819

SIPDIS

STATE FOR AF/S
USDOC FOR ROBERT TELCHIN
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SENSITIVE

1E. O. 12958: N/A
TAGS: ECON ETRD EINV PGOV ZI
SUBJECT: Despite Obstacles, ExxonMobil Stays Profitable
in Zimbabwe

Sensitive but unclassified. Not for Internet posting.

11. (SBU) Summary: ExxonMobil's local managing director says his firm is currently eking out a modest profit in Zimbabwe, thanks to guaranteed supplies of foreign exchange at the official rate. Still, the MD told us he tussles regularly with corrupt ministers and micro-fuel operators. End summary.

Forex Access Is Key

12. (SBU) ExxonMobil MD Nestor Ankiba, who has run the company's Zimbabwe operations for about six months, called on the Ambassador on Nov 3. The subsidiary has many large commercial clients and over 80 service stations. Ankiba is grateful that Reserve Bank (RBZ) Governor Gideon Gono has guaranteed oil firms access to a weekly US\$8 million of foreign exchange at the official rate (Z\$5600:US\$). Given this privileged access to forex, ExxonMobil sold 45,000 barrels of fuel in October, well beyond its 30,000 barrel/month break-even point but significantly below its 150 barrels/month of 1999.

13. (SBU) Ankiba regrets, however, that Gono pressed the six multinationals in September to form a consortium with about 100 mostly tiny, local operators. Gono wants the consortium to agree on a single supplier for fuel imports and divide up the US\$8 million of weekly forex among the players. Following a 4-hour meeting with 100 operators yesterday, an exasperated Ankiba claims it has become impossible for the group to reach agreement on each member's share of forex and imported fuel. Many smaller firms - whom RBZ Governor Gono himself has publicly dismissed by as "briefcase operators" - have neither fuel depots nor trucks nor service stations, making them little more than rent-seeking middlemen.

Corrupt Ministries

14. (SBU) Nevertheless, the small operators seem to have the Government's ear. They are now lobbying for the right to supply stations that belong to multinationals. Ankiba bristles at this, since ExxonMobil would exercise no quality control over fuel pumped from stations bearing its logo. Ankiba complains that some government officials have a financial stake in these small operators. Others have asked him if ExxonMobil would award them their own service station.

15. (SBU) Ankiba says he has warned government officials that they will have to manage a steep price hike in the run up to March's parliamentary elections. At a current Z\$3,800 (US\$.67)/liter, Zimbabwe's leaded fuel is the region's cheapest. (For anyone who sources foreign currency through the parallel market, where the rate is Z\$8,500:US\$, the price converts to just US\$.44/liter.) With recent world prices above US\$50/barrel, Ankiba believes local prices may reach Z\$6,000 (US\$ 1.07) in the coming months.

Comment

16. (SBU) With parliamentary elections nearing, higher fuel costs are bad news for the GOZ. Omnipresent lines at gas stations are visible reminders of the country's forex shortage and failed economic policies. That is the main reason the fuel sector merits preferential treatment at RBZ currency auctions. But keeping gas stations well stocked will eat up more and more of the GOZ's limited foreign exchange, while higher pump prices will make it all that much tougher to hold inflation in check.

Dell